



DIBF — Paper 1 – International Banking Operations

Complete Book | Table of Contents | 25 chapters + 6 sections

Module 1 — Global Trends and Developments in International Banking

CH-1	Global Trends in International Banking	2
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Module 2 — Wholesale, Retail and Private Banking and Inter-bank Business

CH-2	Wholesale Banking and Inter-bank Business	5
CH-3	International Retail and Private Banking	8

Module 3 — International Financial Centres, Offshore Banking Units and SEZs

CH-4	International Financial Centres	10
CH-5	Offshore Banking Units and SEZs	14

Module 4 — Asset Liability Management

CH-6	Asset Liability Management in International Banks	17
CH-7	Maturity Gaps and Currency Mismatches	21

Module 5 — Profitability of International Banking Operations

CH-8	Profitability of International Banking Operations	24
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Module 6 — Investment Banking

CH-9	Investment Banking	26
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Module 7 — Correspondent Banking

CH-10	Correspondent Banking and Nostro/Vostro Accounts	30
CH-11	International Payments and SWIFT	33

Module 8 — International Financial Institutions

CH-12	IMF and the International Monetary System	36
CH-13	World Bank Group and ADB	38
CH-14	BIS and WTO	42

Module 9 — Treasury and Risk Mitigation

CH-15	International Treasury Organisation	45
CH-16	Foreign Exchange Rates and Calculations	48
CH-17	Treasury Risks and Hedging	51

Module 10 — FEMA and Regulatory Framework in India

CH-18	FEMA and Indian Forex Regulation	54
-------	----------------------------------	----

Module 11 — Letters of Credit, ICC Rules and Trade Finance

CH-19	Letters of Credit: Parties, Types and Lifecycle	57
CH-20	LC Documents and Discrepancies	60
CH-21	UCP 600	63
CH-22	Documentary Collections and URC 522	67
CH-23	Bank Reimbursements and URR 725	70
CH-24	Buyers' Credit and Suppliers' Credit	73
CH-25	Bilateral Trade, Countertrade and High-Seas Sales	76

Additional Resources

—	Case Studies — All Units: Units 1–11	79
—	Mega Tests — Mega Test 1 — 100 Questions (Full Syllabus)	106
—	Mega Tests — Mega Test 2 — 100 Questions (Full Syllabus)	113
—	Mega Tests — Mega Test 3 — 100 Questions (Full Syllabus)	120
—	Mega Tests — Mega Test 4 — 100 Questions (Full Syllabus)	126
—	Mega Tests — Mega Test 5 — 100 Questions (Full Syllabus)	134

CH-1

Global Trends in International Banking

Topic 1 — Meaning and Scope of International Banking

- International banking** — Banking business that crosses a national border, either through the customer, the currency or the place of booking.
- Two sides** — It covers services to foreign customers and services abroad to home-country customers.
- Core idea** — The bank must deal with more than one legal system, currency and regulator.
- Users** — Exporters, importers, multinational companies (MNCs), non-resident individuals, banks and governments.

Main activities

Activity	What the bank does
Trade finance	Letters of credit, collections, guarantees, export and import credit
Foreign exchange	Buys and sells currencies for clients and for its own book
Cross-border lending	Lends to borrowers resident in another country, alone or in a syndicate
Correspondent banking	Gives accounts and payment services to other banks
Euro-currency business	Takes deposits and lends in a currency outside its home country
Investment banking	Arranges bonds, shares, mergers and acquisitions across borders
Private banking	Manages wealth of rich clients across several countries

Forms of presence abroad

Form	Can take deposits and lend?	Legal status	Main use
Correspondent bank	Not itself; uses the partner bank	No presence	Cheapest entry; payments and trade
Representative office	No	Liaison only	Market study and client contact
Agency	Lends; deposits limited	Part of parent	Trade and corporate lending
Branch	Yes	Part of parent; no separate capital	Full banking backed by parent capital
Subsidiary	Yes	Separate company under host law	Local retail business; ring-fenced capital
IFSC Banking Unit	Yes, in foreign currency	Branch-like unit in an IFSC	Offshore business from India

Remember this

- A **branch** is legally part of the parent bank; a **subsidiary** is a separate company with its own capital and host-country licence.

Topic 2 — Cross-border Business versus Local Business

Two separate questions must be asked about any claim: **where** the two parties reside, and **in which currency** it is written.

- Cross-border claim** — The lending office and the borrower are resident in **different countries**.
- Local claim** — The lending office and the borrower are resident in the **same country**.
- Foreign-currency claim** — The claim is in a currency other than the local currency of the lending office.
- Residence rule** — Residence depends on where the person or firm is based, not on citizenship or the name of the company.

Case	Residence	Currency	Classification
Mumbai office lends INR to a Nepal-resident firm	Different	INR (home)	Cross-border , local currency of lender
Mumbai office lends USD to a Pune company	Same	USD	Local , foreign currency
Singapore branch of an Indian bank lends SGD to a Singapore firm	Same (Singapore)	SGD	Local claim of a foreign affiliate in local currency
Singapore branch lends USD to an Indian company	Different	USD	Cross-border , foreign currency

Example: An Indian bank office in Mumbai lends ₹50 crore to a borrower resident in Nepal. The loan is in rupees, yet it is a **cross-border** claim because the two parties live in different countries.

Remember this

- Residence decides cross-border; currency decides foreign-currency. The two labels are independent.

Topic 3 — Drivers of Globalisation in Banking

Why banks went global

- Follow the client** — Banks opened offices abroad to serve home MNCs and exporters.
- World trade** — Growth in trade raised demand for LCs, guarantees and forex.
- Deregulation** — Removal of interest-rate and capital controls opened markets to foreign banks.
- Euro-currency markets** — Lightly regulated offshore money gave cheaper funding and lending.
- Technology** — SWIFT, online dealing and core banking made remote operations easy.
- Diversification** — Earning in many economies spreads business-cycle risk.
- Capital flows** — FDI, portfolio money and remittances need banking channels.

Benefits of global banking	Risks of global banking
Cheaper and wider funding sources	Contagion: a crisis abroad hits the home bank
Better services for exporters and MNCs	Country, transfer and sovereign risk
Transfer of skills and technology	Weak home-host supervision of complex groups

Benefits of global banking	Risks of global banking
Competition lowers costs for customers	Money laundering and sanctions breaches
Risk spread across many markets	Foreign-exchange and funding mismatches

Recent shifts

- **Post-2008 retreat** — Many global banks cut overseas branches and focused on core markets after the global financial crisis.
- **Basel III** — Higher capital and liquidity needs made far-flung, low-return units costly.
- **Ring-fencing** — Host regulators prefer local subsidiaries with their own capital.
- **Non-bank finance** — Funds, insurers and private credit now provide a large share of cross-border credit.
- **Regional banking** — Asian and Middle-East banks expanded within their own regions.
- **Geopolitics** — Sanctions and trade disputes split payment flows and raised compliance cost.
- **India** — Indian banks serve diaspora and trade corridors; GIFT IFSC now hosts many foreign and Indian bank units.
- **New entrant** — On **14 May 2026** CTBC Bank became the first Taiwanese bank in India, with a branch at GIFT City.

Topic 4 — Digitalisation of Cross-border Banking

Development	What it means for banks
ISO 20022 messages	Rich, structured data in payments; better screening and straight-through processing. SWIFT's coexistence period for cross-border payment messages ended in November 2025
SWIFT gpi	Unique tracking reference (UETR) lets each bank in the chain see the status and charges of a payment
G20 cross-border payments roadmap	Targets for end-2027: retail payments to cost on average not more than 1%, and 75% to be credited within one hour
Remittance cost goal	Average cost of sending remittances of not more than 3% by 2030
Fast-payment links	Linking domestic systems, such as UPI with Singapore's PayNow, for instant person-to-person transfers
Central bank digital currency	Retail and wholesale digital rupee (e-₹) pilots run by RBI; cross-border CBDC projects tested by central banks
Tokenisation and APIs	Digital tokens for deposits and assets; open APIs for corporate treasury links

- **Benefits** — Faster payments, lower cost, better tracking and fewer manual errors.
- **New risks** — Cyber attacks, data-privacy breaches, third-party (cloud and fintech) risk and fraud at instant speed.
- **Competition** — Fintechs and big-tech firms compete for remittance and card business.
- **Control need** — Real-time payments need real-time sanctions screening and fraud monitoring.

Remember this

- SWIFT carries **messages**; money moves only when accounts are debited and credited in settlement.

Topic 5 — De-risking in Correspondent Banking

- **De-risking** — A bank closes or restricts whole classes of relationships to avoid risk, instead of managing each client's risk.
- **Main targets** — Respondent banks in small or high-risk countries, money transfer operators and some charities.

Reason for de-risking	Effect
High AML and sanctions compliance cost	Low-margin relationships are dropped
Heavy fines for past failures	Banks avoid any client with possible risk
Poor information on the respondent's customers	Relationship cannot be properly assessed
Low profit from small countries	Business is not worth the cost of due diligence

Why regulators worry

- **Financial exclusion** — Remittance families and small exporters lose access to banking.
- **Shadow channels** — Money moves to informal, unregulated routes, which raises money-laundering risk.
- **FATF view** — FATF expects a **risk-based approach**: assess and manage risk client by client; it does not require wholesale termination.

Good practice for banks

- **Assess** — Study the respondent's ownership, licence, supervision and AML controls.
- **Mitigate** — Use limits, enhanced monitoring and information requests instead of exit.
- **Document** — Record the reason for every exit decision.
- **See** — Ch 10 (p. 30) for the fall in correspondent relationships since the early 2010s, concentration of corridors in fewer banks and industry tools such as KYC utilities, LEI, ISO 20022 data and the Wolfsberg CBDDQ.

Topic 6 — Reading BIS International Banking Statistics

The Bank for International Settlements (BIS) collects data from central banks on the international positions of banks. It has two main data sets.

Feature	Locational Banking Statistics (LBS)	Consolidated Banking Statistics (CBS)
Basis	Residence of the banking office	Nationality of the banking group (head office)
Intragroup positions	Included	Removed on consolidation
Answers	How much money flows into and out of a country through banks located there	How much risk a country's banking groups carry on other countries
Currency detail	Yes, by currency	Limited
Best use	Capital flows, funding, currency composition	Country exposure of home banks

Key terms in CBS

- **Cross-border claims** — Claims on borrowers resident in another country.
- **International claims** — Cross-border claims **plus** local claims of foreign affiliates in a foreign currency.

- **Foreign claims** — Cross-border claims **plus all** local claims of foreign affiliates, in any currency.
- **Immediate counterparty basis** — Claims are shown against the country of the direct borrower.
- **Ultimate risk basis** — Claims are moved to the country of the guarantor or head office that bears the final risk.

Classification formulas used in CBS:

International claims = Cross border + Local claims in FC

Foreign claims = Cross border + Local claims in FC + Local claims in LC

Example: A banking group has cross-border claims of USD 400 bn, local foreign-currency claims of its foreign affiliates of USD 60 bn and local local-currency claims of USD 140 bn. International claims = 400 + 60 = **USD 460 bn**. Foreign claims = 460 + 140 = **USD 600 bn**.

Exchange-rate adjustment

BIS reports positions in US dollars. A change in exchange rates can change the dollar value even when no new lending happened. So BIS also shows an exchange-rate-adjusted change.

$$\text{Adjusted change (\%)} = \frac{\text{Closing} - \text{Opening} - \text{FX effect}}{\text{Opening}} \times 100$$

Example: Claims rise from USD 500 bn to USD 530 bn, a reported rise of 6.0%. A stronger dollar reduced the value of euro claims by USD 12 bn (FX effect = -12). Adjusted change = $(530 - 500 + 12) \div 500 \times 100 = 8.4\%$. Real lending grew faster than the headline figure.

Remember this

- Do not add LBS and CBS totals; they measure different perimeters.
- Ultimate risk basis is the better measure of true country exposure.

DIBF | Module 1 | CH-1 | MCQs

Q1. An Indian bank's office in Mumbai lends rupees to a company resident in Nepal. In BIS terms this claim is — [Ref: Topic 2, p. 2]

- (a) Cross-border, because the lender and borrower reside in different countries
- (b) Local, because it is written in the lender's home currency
- (c) Foreign-currency, because the borrower is a foreign company
- (d) Not reportable, because rupee claims are excluded

Q2. A Singapore branch of an Indian bank lends Singapore dollars to a Singapore company. How is this claim classified for the Indian banking group? [Ref: Topic 2, p. 2]

- (a) Cross-border claim in foreign currency
- (b) Local claim of a foreign affiliate in local currency
- (c) International claim in foreign currency
- (d) Domestic claim of the Indian head office

Q3. A banking group has cross-border claims USD 250 bn, local foreign-currency claims of affiliates USD 30 bn and local local-currency claims USD 70 bn. Its international claims are — [Ref: Topic 6, p. 3]

- (a) USD 250 bn
- (b) USD 320 bn
- (c) USD 280 bn
- (d) USD 350 bn

Q4. For the same group (cross-border USD 250 bn, local FC claims USD 30 bn, local LC claims USD 70 bn), foreign claims are — [Ref: Topic 6, p. 3]

- (a) USD 280 bn
- (b) USD 320 bn
- (c) USD 250 bn
- (d) USD 350 bn

Q5. Claims rose from USD 800 bn to USD 820 bn. A stronger dollar cut the value of non-dollar claims by USD 16 bn. The exchange-rate-adjusted growth is — [Ref: Topic 6, p. 3]

- (a) 2.5%
- (b) 4.5%
- (c) 0.5%
- (d) 2.0%

Q6. A bank wants a legally separate unit abroad with its own capital, which the host regulator can ring-fence. It should open a — [Ref: Topic 1, p. 2]

- (a) Subsidiary
- (b) Branch
- (c) Representative office
- (d) Agency

Q7. Which form of presence abroad can only do liaison and market study, and cannot take deposits or lend? [Ref: Topic 1, p. 2]

- (a) Branch
- (b) Subsidiary
- (c) Agency
- (d) Representative office

Q8. A regulator wants to know how much risk Indian banking groups carry on the United Kingdom, after shifting guaranteed loans to the guarantor's country. The right data set is — [Ref: Topic 6, p. 3]

- (a) Locational statistics by residence
- (b) Consolidated statistics on an immediate counterparty basis
- (c) Consolidated statistics on an ultimate risk basis
- (d) Locational statistics by currency

Q9. Why can a figure appear in BIS locational statistics but not in consolidated statistics? [Ref: Topic 6, p. 3]

- (a) Intragroup positions are removed on consolidation
- (b) Locational data exclude loans
- (c) Consolidated data ignore foreign branches
- (d) Locational data cover only retail deposits

Q10. A global bank closes all accounts of respondent banks from a small island country because compliance cost is high, without reviewing each bank. This is — [Ref: Topic 5, p. 3]

- (a) Risk-based approach
- (b) De-risking
- (c) Enhanced due diligence
- (d) Nesting

Q11. What does FATF expect banks to do about correspondent relationships with higher-risk countries? [Ref: Topic 5, p. 3]

- (a) Close all such relationships at once
- (b) Ignore the risk if the respondent is licensed
- (c) Refer every payment to the central bank
- (d) Assess and manage risk relationship by relationship

Q12. Which is a key concern of regulators about large-scale de-risking? [Ref: Topic 5, p. 3]

- (a) Banks earn excessive profits from small countries
- (b) Correspondent banks hold too much capital
- (c) Money moves to informal channels and families lose access to remittances
- (d) SWIFT messages become longer

Q13. Under SWIFT gpi, a bank can see the status and charges of a cross-border payment at every step because of — [Ref: Topic 4, p. 3]

- (a) The IBAN of the beneficiary
- (b) A unique end-to-end transaction reference (UETR)
- (c) A paper confirmation from each bank
- (d) The SWIFT BIC of the central bank

Q14. A key G20 target for end-2027 is that retail cross-border payments should cost, on average, not more than — [Ref: Topic 4, p. 3]

- (a) 3%
- (b) 5%
- (c) 0.1%
- (d) 1%

Q15. Which factor is the best example of 'follow the client' as a driver of bank globalisation? [Ref: Topic 3, p. 2]

- (a) An Indian bank opens a branch where its large Indian corporate clients have set up factories
- (b) A bank cuts overseas branches to save capital
- (c) A bank buys government bonds at home
- (d) A bank joins a domestic payment system

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	a	4	d	7	d	10	b	13	b
2	b	5	b	8	c	11	d	14	d
3	c	6	a	9	a	12	c	15	a

CH-2

Wholesale Banking and Inter-bank Business

Topic 1 — Wholesale Banking and its Clients

- Wholesale banking** — Banking services for large institutions rather than individuals.
- Ticket size** — Each deal is large, so a few clients give most of the income.
- Relationship model** — A relationship manager (RM) handles each client group, backed by product specialists.
- Global reach** — International banks serve the same client in many countries through one global relationship.

Client group	Typical needs
Large corporates and MNCs	Working capital, term loans, trade finance, cash management, forex hedging
Governments and public bodies	Treasury services, project loans, bond issues, collection accounts
Banks and financial institutions	Correspondent accounts, interbank lines, clearing, custody
Funds, insurers and asset managers	Custody, fund administration, FX, securities lending
Export-import firms	LCs, guarantees, pre- and post-shipment credit, factoring

Feature	Wholesale banking	Retail banking
Customers	Companies, governments, banks	Individuals and small firms
Deal size	Large	Small
Number of clients	Few	Very many
Pricing	Negotiated deal by deal	Standard card rates
Funding	Interbank, bonds, large deposits	Retail deposits
Main risk	Concentration and counterparty risk	Conduct and operational risk

Remember this

- Wholesale banking earns on **few, large** relationships, so concentration risk is the key risk.

Topic 2 — Wholesale Products and Pricing

Product	Purpose
Working capital and term loans	Fund operations and projects
Syndicated loans	Several banks share one large loan under one agreement
Trade finance	LCs, guarantees, bill discounting, supply-chain finance
Cash management	Collections, payments, liquidity pooling across accounts and countries
FX and derivatives	Spot, forwards, swaps and options to hedge currency and interest-rate risk
Debt capital markets	Arranging and underwriting bonds and commercial paper
Custody and securities services	Safekeeping, settlement and asset servicing

Pricing of a wholesale loan

- Benchmark** — Floating-rate foreign-currency loans now use a risk-free rate such as **SOFR** (USD), **SONIA** (GBP) or **€STR** (EUR). LIBOR has ceased.
- Margin** — A spread over the benchmark that reflects credit risk, tenor and capital cost.
- Fees** — Upfront (arrangement) fee, commitment fee on undrawn amount and agency fee.
- All-in cost** — The borrower compares the margin plus fees spread over the life of the loan.

Simple all-in spread of a loan (upfront fee spread evenly over the tenor):

$$\text{All in spread} = \text{Margin} + \frac{\text{Upfront fee}}{\text{Tenor in years}}$$

Example: A 3-year USD 50 million loan is priced at SOFR + 1.50% with an upfront fee of 0.75%. All-in spread = 1.50% + 0.75% ÷ 3 = **SOFR + 1.75%** a year.

Topic 3 — The Inter-bank Market

- Inter-bank market** — The market in which banks lend to, borrow from and deal with one another.
- Why it exists** — Some banks have surplus funds and others have a shortfall on the same day.
- Segments** — Money market (deposits and placements), foreign exchange, repo and derivatives.
- Price setting** — Inter-bank rates are the base for pricing loans, deposits and forward rates to customers.
- Day count** — USD and EUR money market deals use actual days ÷ 360; INR and GBP use actual days ÷ 365.

Benchmark	Currency	Nature
SOFR	US dollar	Overnight secured rate based on Treasury repo deals
SONIA	Pound sterling	Overnight unsecured rate
€STR	Euro	Overnight unsecured rate
TONA	Japanese yen	Overnight unsecured call rate
Overnight MIBOR	Indian rupee	Published by FBIL from call money deals
LIBOR (legacy)	Several	Ceased; old contracts moved to fallback rates

Interest on a money market placement:

$$\text{Interest} = \text{Principal} \times r \times \frac{\text{Days}}{\text{Day basis}}$$